

## Message Text

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PAGE 01 MADRID 05811 031655Z  
ACTION EUR-12

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FM AMEMBASSY MADRID

TO SECSTATE WASHDC 1249

C O N F I D E N T I A L MADRID 5811

E.O. 11652: GDS

TAGS: EFIN, BEXP, SP

SUBJECT: SPANISH BANKERS' VIEWS ON ESTABLISHMENT OF FOREIGN  
BANK BRANCHES IN SPAIN

REF: MADRID 2481

1. SPANISH BANKS FAVOR AUTHORIZING FOREIGN BANKS TO  
ESTABLISH BRANCHES IN SPAIN, BUT UNDER CONDITIONS  
THAT AMERICAN BANKS MAY FIND OVERLY RESTRICTIVE.

2. THE CONSEJO SUPERIOR BANCARIO (THE ORGANIZATION  
REPRESENTING SPANISH COMMERCIAL AND INDUSTRIAL BANKS  
IN THEIR RELATIONS WITH THE GOVERNMENT) HAS PREPARED  
AND SUBMITTED TO THE GOVERNMENT ITS PROPOSED DRAFT  
FOR A DECREE REGULATING THE ESTABLISHMENT OF FOREIGN  
BRANCH BANKS IN SPAIN. THE DRAFT WILL BE REVIEWED  
AND PERHAPS MODIFIED BY THE BANK OF SPAIN BEFORE  
BEING SENT TO THE MINISTRY OF ECONOMY FOR FURTHER  
CONSIDERATION.

3. ACCORDING TO THE DRAFT DECREE (A COPY OF WHICH  
WE HAVE OBTAINED FROM BANKING CONTACTS) THE MINISTRY  
OF FINANCE SHOULD CONSIDER THE FOLLOWING FACTORS IN  
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PAGE 02 MADRID 05811 031655Z

EVALUATING APPLICATIONS BY FOREIGN BANKS TO ESTABLISH  
BRANCHES IN SPAIN:

(A) ECONOMIC RELATIONS WITH THE BANKS COUNTRY OF  
ORIGIN.

(B) WHETHER THE BANK'S COUNTRY OF ORIGIN PERMITS

SPANISH BRANCH BANK OPERATIONS.

(C) PROPOSED CAPITAL INVESTMENT ABOVE THE ESTABLISHED MINIMUM (PARA 4 BELOW).

(D) SOLVENCY GUARANTEES.

(E) JUSTIFICATION OF ACTIVE PRESENCE AND PROGRAM OF ACTIVITIES.

(F) INTEREST IN PRIORITY ACTIVITIES ON SECTORS IN THE DOMESTIC ECONOMY.

(G) APPLICANT BANK'S PAST PARTICIPATION IN CREDITS TO SPANISH FIRMS OR GOVERNMENT AGENCIES.

4. (THE MAJOR CONDITIONS FOR FOREIGN BRANCH BANK OPERATIONS PROPOSED BY THE DRAFT DECREE ARE:

(A) CAPITAL INVESTMENT MUST AT ALL TIMES BE 1.5 BILLION PESETAS (ABOUT \$18 MILLION) OR MORE.

(B) ONLY ONE BRANCH IN SPAIN MAY BE ESTABLISHED INITIALLY.

(C) BORROWING ON LOCAL SPANISH MARKET MAY NOT EXCEED  
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PAGE 03 MADRID 05811 031655Z

20 PERCENT OF BANK'S TOTAL LOAN ASSETS, UNLESS EXPRESSLY AUTHORIZED BY THE BANK OF SPAIN.

(D) THE VALUE OF ACCEPTANCES, GUARANTEES, AND SECURED CREDITS MAY NOT BE MORE THAN TWICE THE CAPITAL INVESTMENT.

(E) SECURITY HOLDINGS MUST BE LIMITED TO PUBLIC ISSUES OR NON-BANK SHARES QUOTED IN THE STOCK MARKET.

(F) BANK OF SPAIN MUST APPROVE THE BRANCH'S DIRECTOR AND EXCHANGE CONTROLLER, ONE OF WHICH MUST BE A SPANISH NATIONAL.

(G) NO PROFITS MAY BE REPATRIATED FOR THE FIRST THREE YEARS.

(H) PROFIT TRANSFERS MUST BE ACCORDING TO LEGISLATION REGULATING TRANSFER ABROAD BY NON-RESIDENT FIRMS.

5. COMMENT: EMBASSY UNDERSTANDS THAT THIS PROPOSED DECREE WAS DRAFTED AFTER SURVEYING THE OPINION OF ALL SPANISH BANKS EXCEPT BANCO ESPANOL DE CREDITO (BANESTO), WHICH

IS KNOWN TO BE AGAINST PERMITTING FOREIGN BANKS IN SPAIN  
SINCE IT IS NOT ITSELF INTERESTED IN ESTABLISHING BRANCH  
OPERATIONS ABROAD. PRELIMINARY REACTION OF LOCAL AMERICAN  
BANK REPRESENTATIVES IS THAT CONDITIONS OF THIS PROPOSED  
DECREE ARE OVERLY RESTRICTIVE. THEY ARE PARTICULARLY  
BOthered BY THE \$18 MILLION MINIMUM CAPITAL REQUIREMENT  
WHICH IS ROUGHLY THREE TIMES MORE THAN THEY HAD CONSIDERED  
AS AN INITIAL INVESTMENT, THE PROHIBITION ON PROFIT  
REMITTANCES FOR THREE YEARS, AND THE 20 PERCENT OF LOAN  
ASSET LIMITATION ON DOMESTIC BORROWING. STABLER

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